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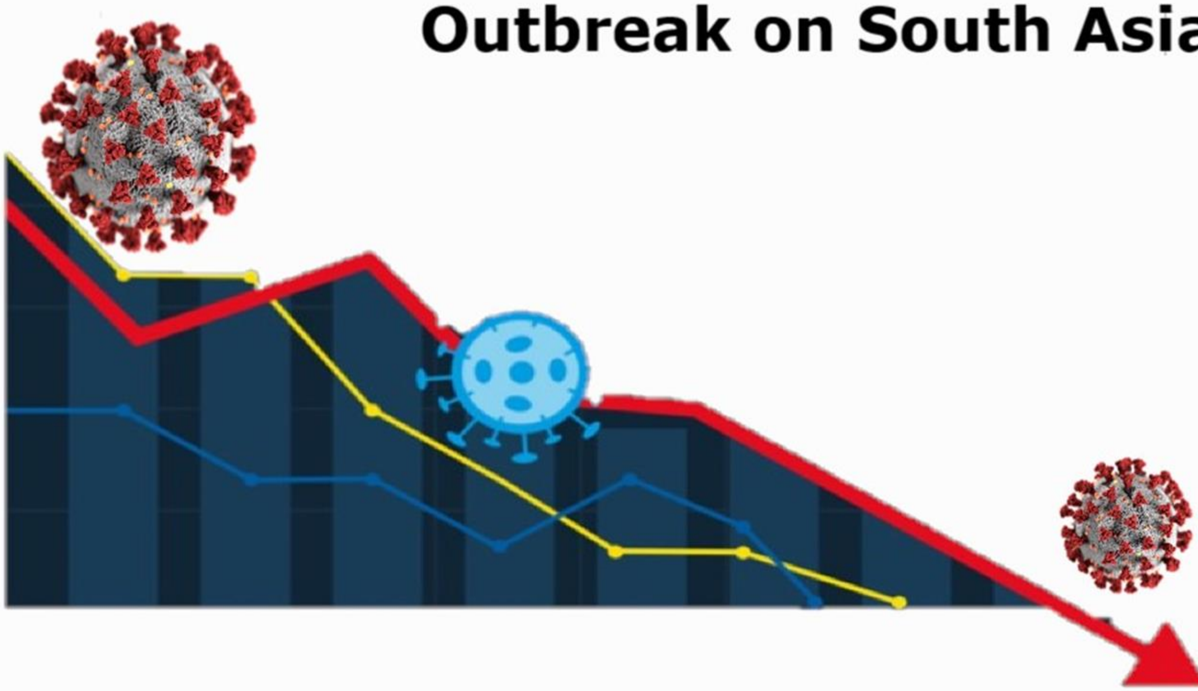
Economic Impact of COVID-19 Outbreak on South Asia



Introduction

Since the World Health Organization declared the COVID-19 outbreak as a global pandemic, people have been living in lock-down conditions and economic activities has been disrupted around the world. As of May 15, 2020, the COVID-19 outbreak, has reached 213 countries, affecting 4.44 million persons, with 303,555 deaths. In South Asia too, the numbers are rising, with 145,867 confirmed cases and more than 3884 deaths.

All eight SAARC member states from the region have confirmed cases and the number of expected infections is expected to increase manifold in the coming days. Without a doubt, the coronavirus will negatively impact South Asia's economy similar to the rest of the world. South Asia has moved from the fastest-growing region in the world in 2019 to a projected slow-growth trajectory in 2020. Trade, investment, and tourism have been hit hardest. Stock markets have tumbled and business confidence is at an all-time low. Key sectors that have been more affected are - airline, tourism, retail and other services sectors; supply chain has been disrupted; there is possibility of food scarcity; employment and livelihood is at risk. Remittance has declined significantly. Often times, economic turmoil also leads to political upheavals and this is the biggest worry at the moment for South Asia's fragile democracies.

While initial pronouncements estimated a brief and limited impact on the global economy, the worldwide spread of the outbreak including Europe, the US, ASEAN region, and South Asia, has impacted almost all sectors of the economy – from banking to insurance and from agriculture to real estate to automobiles.

According to the World Bank's newly-released *South Asia Economic Focus* report, the coronavirus epidemic is likely to sink South Asia's once-booming economies to the lowest level seen in the four decades. The slowdown is expected to be seen in each of the region's eight countries, with growth projected to range between 1.8 and 2.8 percent this year, a dramatic drop from the previous forecast of 6.3 percent. The rapid spread of the virus and its aftermath for the global economy is so unprecedented that it's hard to make an accurate projection, the World Bank said in its report, which presented a range forecast, rather than a point forecast, for the first time. According to the report, The Maldives is expected to be the worst-hit along with Afghanistan, Pakistan, and Sri Lanka, wherein the full range of forecast is in negative growth. This gloomy forecast will linger even till 2021, with growth projected to hover between 3.1 and 4.0 percent. "South Asia finds itself in a perfect storm of adverse effects. Tourism has dried up, supply chains have been disrupted, demand for garments has collapsed and consumer and investor sentiments have deteriorated," the report says.

EU, China, Japan and the US are the biggest external trade partners and investors for SAARC region. SAARC's supply chains are heavily integrated with the manufacturing sector of these regions and countries, and South Asia’s tourism sector benefits from the large influx of tourists from these countries also. The WTO has estimated that world trade is expected to fall by between 13 percent and 32 percent in 2020, exceeding the decline brought by the Global Financial Crisis of 2007-08. Thus, the overall economic impact on South Asia would likely be broad and deep, although the impact could vary between the countries and across the region.

Hit on Regional Tourism and Aviation Industry

Countries in the region have issued travel advisories and are in lockdown mode to rein in the spread of the virus. The tourism and hospitality sector provides larger scale employment in South Asia. Workers such as tour guides and porters are hardest hit because they depend on seasonal work for the entire year.

The aviation industry in the region is now under severe threat as the industry is facing trouble in maintaining management cost, civil aviation charge, and payment of the installments of aircraft. As per the latest updates by the International Air Transport Association (IATA), their revenue loss is estimated at over $252 billion globally, a 44 percent drop. According to the Federation of Indian Chambers of Commerce and Industry (FICCI), in India alone, many airline companies are on the verge of bankruptcy and almost 3 million jobs are at risk. India’s aviation industry is expected to post losses of $3-3.6 billion in the second quarter of this financial year.

For Nepal, as tourism is the second-largest earner of foreign exchange, this industry was expected to drive the country’s economic growth and contribute greatly to the high growth target of 8.5 percent that the government had set for this year. The contribution of the tourism sector to Nepal’s economy stood at 7.9 percent in the 2018/19 fiscal year. The government has also canceled the ‘Visit Nepal 2020’ campaign, which was launched in January this year with the goal of attracting 2 million foreign tourists. But there is a ray of hope as Nepal has zero deaths from the virus till date and one of the lowest number of reported cases. Post pandemic, there is going to be state support for boosting of domestic tourism.

The tourism industry in The Maldives is hit harder, as the island nation is heavily dependent on tourism for its foreign exchange earnings. In 2019 alone, it attracted a record 1.7 million tourists. According to the World Bank, tourism accounts for nearly two-thirds of the country's GDP. The industry also employs the single largest proportion of the Maldivian workforce. Encouraged by the massive influx of holidaymakers, the country set an ambitious target for 2020: receiving 2 million tourists, before the pandemic hit the world.

Similarly, tourism is a key contributor to Sri Lankan economy as it is the third-largest foreign exchange earner. Like in other countries, it has been adversely impacted. The tourism business and hospitality sector in Sri Lanka contributes around 12 percent to the country's GDP. Originally 2020 was supposed to be a big year for Sri Lanka, as the island nation had planned for a significant surge in visitor traffic.

Food Insecurity

The United Nations World Food Programme has warned that an estimated 265 million people could face acute food insecurity worldwide by the end of 2020, up from 135 million people before the crisis. In remarks delivered to the UN Security Council on April 21, UN World Food Programme Executive Director David Beasley said, "In a worst-case scenario, we could be looking at famine in about three dozen countries."

COVID-19 has disrupted supply chains that is essential for food security in South Asia. Countries have managed, so far, to keep markets and food stores stocked with food and feed those who can afford it. South Asia is a densely populated region and it also contains some of the most challenging agricultural environments and remains at high risk of climate change. Even under normal circumstances, food security in the region is already threatened by multiple factors. Moreover, the COVID-19 pandemic and the adopted lockdown has now become an additional factor with generalized impact across the region. The ongoing lockdown has disrupted parts of the supply chain, in particular, the food processing and transport sectors. The complete shutdown of all economic activities except essential services will create an economic crisis and rising food insecurity in the region. There will be a negative impact on both food production and consumption. South Asia is already home to the largest number of poor and hungry in the world. There is a possibility that with the prolong lockdown, there will be disruption in food production and with the potential to affect the nutrition aspect of food security.

Of greater concern in South Asia is the disruption of crop planting, which in many countries and for important food crops like rice, is closely tied to seasons. April-May period is critical for planting rice to replenish stocks but the ongoing lockdown, social distancing, as well as non- availability of crop seeds, may lead to low production this year. Rice is important for food security in the entire region. In India, the central government has asked the farmers to delay harvesting given the situation. Experts fear that the delay in the harvesting of crops, mainly rice may lead to serious food crises not only to India but also to its neighboring countries that are dependent on Indian exports.

The World Food Program's "Nepal COVID-19: Food Security and Vulnerability Update" says that although there is sufficient stock to last till the monsoon, it predicts significant reductions in the harvest of wheat and other winter crops. Nepal is one of the 55 countries in the world with the possibility of food crisis.

Given the ongoing situation, India has halted rice exports, and new export contracts with Nepali traders stopped early this month. As Nepal is largely dependent on India for food imports, any agricultural crisis in India will also have a domino effect in Nepal. The WFP also warns that, while market supplies are sufficient overall for the time being if this situation were to continue beyond a month, a subsequent depletion of cereal and pulses stock, especially in remote markets, could push staple prices even higher in the absence of decisive government intervention.

On the other hand, because of lack of transportation and poor market management; agricultural and dairy productions in India, Nepal, and other countries in the region are either being dumped, fed to livestock, or left to rot.

Migrant Labour returning home- huge decline on Remittance

The World Bank also predicts that remittances to South Asia will drop by 22 percent this year, underscoring the economic distress stemming from the pandemic and reflecting a loss of income for South Asian economies. Migrants working in the Gulf, Malaysia, South Korea and elsewhere support families back home and loss of jobs means poverty and hardship not only for them but also for their families living in rural areas of South Asia.

South Asia is the world’s biggest recipient of remittances, which bolster the foreign exchange reserves and help fund its current account deficit. South Asia gets 22 percent of global remittances that amounted to $122.4 billion in 2019. India, Pakistan, Bangladesh, Nepal, and Sri Lanka are in the top 20 list of biggest beneficiaries of remittances around the world. In this backdrop, the ongoing worldwide lockdown including in the Gulf region has made a large number of South Asian migrants jobless, which directly impacts their income and eventually in the regional remittance inflow. Likelihood of them returning *en masse* once the flights begin operating is a nightmare for the South Asian governments that will then have to grapple with the twin challenge of giving them employment as well as ensuring that there is no law and order problem.

Adverse Impact on Low and Middle-Income Countries (LMIC)

The sharp decline in crude prices, decrease in construction work and resulting unemployment in the Middle East will hurt remittances from oil-producing countries including Saudi Arabia, UAE and Qatar that have the largest percentage of South Asian migrant workers. But this is coming at a time when remittance flows are expected to become even more important for South Asia as a source of external financing for LMICs as the fall in foreign direct investment (FDI) is expected to be sharper. In 2019, remittance flows to LMICs exceeded FDI, according to the World Bank.

Disruptions for Supply Chains and Financial Markets

Disruption in one area of global supply chain affects other areas. The largest economies in the world are the main ones reeling from the supply and demand shocks. Affected economies including the US, China, EU, Japan, and South Korea are the biggest trading partners for South Asia. The supply chain disruptions, travel restrictions, and lockdowns has had a wide impact. Additionally, financial markets from the US, Europe to Asia are volatile as investors are concerned that the virus is creating a global economic and financial crisis in ways not seen since the global financial crisis. The effect of the COVID-19 pandemic on the financial system will largely depend on; how much further the virus will spread across the globe and its effect on economic activity, fiscal and monetary policy responses to the shock, and regulatory measures to avoid from possible banking system fragility.

Banks postpone loan collection

Banks around the world including in South Asia are suspending loan repayments as coronavirus hits borrowers. Banks in the region have also put some of their retail loan collections on hold. This includes physical collections on repayments from microfinance, housing, and passenger vehicle loans, among others.

In India, banks and finance institutions are strictly asked not to collect loans during the government-mandated lockdown. If any private bank, finance company, or micro-lender conducts collections during the lockdown period, it would face criminal prosecution. The Reserve Bank of India (RBI), on 27 March, permitted lending institutions to offer a three-month moratorium to their borrowers with respect to all term loans. Since the imposition of the nationwide lockdown, the Reserve Bank of India (RBI) has taken measures to help businesses tide over the crisis which is expected to enhance liquidity, improve credit supply and help small businesses and farmers hit by the nationwide lockdown in India.

Besides, to help people and businesses affected by the pandemic, state-owned lenders in India including Indian Bank and Union Bank of India, have announced the launch of special emergency loan products like personal loans and soft loans for self-help group members.

Likewise, In Nepal, Nepal Central Bank has announced some relief measures, including rescheduling of loan repayments deadline and prioritized refinance facilities for small and medium-scale enterprises (SMEs). According to the central bank, borrowers who were supposed to pay loan installments to banks and financial institutions in mid-April can now pay the installment by mid-July. Banks cannot impose penal interest for delays in repayment. Similarly, if any private enterprise wants to expand health facilities that will contribute to efforts in combating Covid-19, loans provided to such facilities will be counted as a deprived sector loan. Banks are required to provide at least five percent of their loans to the deprived sector, which is micro-credit to the poor. The central bank has also reduced the cash reserve ratio to be maintained by banks and financial institutions to three percent of their total deposit, down from the existing four percent. This will pump additional liquidity of NPR 35 billion into the banking system.

Other South Asian countries and the banking systems have also taken similar measures and actions in their respective countries to minimize the pandemic's negative impact on national economy.

Afghanistan:

Afghanistan is battling the twin scourge of conflict as well as the Covid- 19 pandemic. Amidst spiraling cases (5639 cases as of 15 May since the first case on 24 February) and concerns of the spread of the virus, the Taliban is actively using the space and the time to gain acceptability among Afghans and the international community. Unlike other armed groups like IS and the AQ, who are using the opportunity to scale up attacks and recruitment, the Taliban has launched a public-health awareness campaign to gain wider acceptability and use it as a tool of influence in the conflict-ridden country. They have announced willingness to announce ceasefire in areas under their influence in case of any incidence of virus outbreak. They have even lifted a ban on the World Health Organization (WHO) in their area of influence as a way of reaching out to the international community. This is done in conjunction with attacks on Health facilities outside their area of influence. According to the WHO, there were 34 reported attacks on healthcare facilities in the first quarter of 2019, killing at least nine workers and patients and causing the closure of at least 87 medical facilities. These attacks on health workers, amidst concerns of US troop withdrawal and the reduction of aid, will further aid the group's objective of gaining acceptability, expanding their territorial control and increase their bargaining potential in the peace negotiations.

Bangladesh:

Bangladesh announced its first Coronavirus cases on 8 March 2020. As of 15 May 2020, there has been 283 deaths with over 18,863 infections due to the virus.

Before the Coronavirus reached Bangladesh, its GDP growth was projected at above 8 percent this year. To contain the virus, the Bangladesh government ordered a lockdown, from 26 March 2020, of all businesses, government offices, shops, restaurants, schools, colleges and other establishments except for hospitals, clinics, grocery shops and banks, which would operate with limited hours. The current lockdown has already been extended thrice and is currently due to end on 7 May 2020. According to the IMF's forecast, Bangladesh's GDP growth is now expected to be around 2 percent in 2020, its lowest in 33 years.

In total, the Bangladesh government had announced various stimulus packages worth USD $11.78 billion, around 4 percent of the country's GDP. The package consists of four programmes including increased public expenditure, stimulus package for industry, widening of social safety net and increasing money supply in the economy.

In summary, these packages would cover salaries for export-oriented industries, working capital loan facilities for industries, SMEs, cottage industries, and ration cards for 5 million poor families.

Bhutan:

As for 15 May 2020, there are 20 reported cases but no deaths in Bhutan from the corona virus. There is no doubt that the outbreak is going to cripple the economy but Bhutan's main source of revenue is hydro-power export. India is the sole market till now. This will remain largely unaffected. The tourism sector however is the hardest hit and has currently come to a standstill. It will have chain reaction to the airlines, handicraft, carpet and other cottage industries and also a negative impact on the Gross National Happiness (BNH) Index for this year.

India:

The small and medium scale businesses that comprises more than one third of India's $2.9 trillion economy are struggling to keep themselves afloat after the economic activities came to standstill following the country-wide lockdown imposed to curb spread of the Covid19 virus on 24th March. In India, the small businesses that employ around 500 million people are facing cash crunch and have either deferred or cut their workers' wages in April; impacting millions. The small and medium businesses are seeking government's help to overcome the impasse.

The Indian government is considering to provide some economic relief packages to the small and medium businesses; however, it is yet to finalize the nature of the bailout- whether it should be a stimulus or a phased relief. The government is thinking about two possible options- a) smaller stimulus to the sectors that need urgent help; b) providing economic packages after industries begin work. Rationale behind option 'a' is - smaller packages will provide immediate relief to the business and it will not burden the government funds. Again, logic behind option 'b' is- opening of the businesses will help to assess the exact picture on the ground and it will be easier to give a stimulus after the resumption of the economic activities.

Some speculations in the Indian media suggest the stimulus package is likely to cost the government around $13 billion. The possible privileges the package might include- increase in the limits of bank loans for working capital needs, hiking threshold limits for availing tax exemptions and relaxing rules for deposits of income tax and other dues, and partial clearance of tax refunds to small businesses and individuals.

Once the package for the small and medium businesses announced, it will be the second in the series of the economic packages provided by the Indian government to address the economic challenges facing the country due to the lockdown. In March, the government rolled out the first phase of stimulus package of worth $23 billion. The package included- providing free health insurance to health workers, cash transfers, free food and gas distribution and social measures for affected workers.

It will take at least more than a year for the Indian economy to recover as business activities have been severely hit by nationwide lockdown to curb the spread of the deadly novel coronavirus, according to a poll of CEOs conducted by Confederation of Indian Industries (CII). The survey results reveal that the country may experience a protracted slowdown in economic activity, as 45 per cent of the CEOs polled feel it will take over a year to achieve economic normalcy once the lockdown ends.

The Maldives:

The Maldives economy is heavily dependent on tourism. The scenic archipelago in the Indian Ocean received a record 1.7 million tourists in 2019 and was expecting 2 million tourists in 2020. Greatest sufferers of the global lock-down have been its resorts and the workers. Almost all resorts have asked their staff to go for an unpaid leave. There are also migrant workers and about 1 thousand tourists stranded in the island.

The World Bank's Board of Executive Directors has approved a $7.3 million Maldives COVID-19 Emergency Response and Health Systems Preparedness Project to help the country prevent, detect, and respond to the pandemic and strengthen its public health preparedness. In addition, a $10 million contingency financing, under Disaster Risk Management Development Policy Financing with a Catastrophe Deferred Drawdown Option (CAT DDO), signed in 2019, has also been made available to support The Maldives.

Nepal:

The COVID-19 pandemic is one of the greatest global health crises in recent times. But what began as a worldwide epidemic has progressed into an economic crisis of a scale not witnessed since the Great Depression as governments close borders, impose lockdowns, halt economic activity and advise citizens to stay at home. Nepal, whose economy is anticipated to grow by 5.3% in the 2020 Fiscal Year (down from 7.1% earlier in the year) by Asian Development Bank, needs to carefully address the economic impact of the pandemic and implement the most effective measures. A comprehensive economic response plan that addresses disruptions in trade and manufacturing, the ceasing of remittance, the halt in tourism and dwindling foreign exchange reserves, is of utmost importance in the following months. One of the most vulnerable sectors that the government needs to address is international labor migration. In 2018, Nepal had an $8.1 billion inflow of remittance which made up 28% of the country's GDP- the highest of any nation in South Asia. But with businesses, factories and work closed around the world due to lockdowns and physical distancing measures to curb the spread of the coronavirus, remittance inflow will take a significant hit this year.

Furthermore, along with a complete halt in tourism, foreign exchange reserves (which was $9.6 billion in mid-February) will be at a risk of running dangerously low if the economic downturn continues for a prolonged period of time. With limitations placed on international trade and farmers advised not to work, Nepal's agricultural sector will also face an immense loss. Even now, the sale of dairy, vegetables and poultry are down by 40-44% compared to regular, pre-lockdown consumption.

A liquidity crunch is also a possible effect of prolonged lockdowns due to the pandemic. To prevent this, banks and financial institutions need to revalue risk assets and monitor asset price bursts if they occur. But adaptive policies are necessary as it is difficult to identify the turn the economy will take later in the year.

Small and medium enterprises are also likely to suffer immensely if informal borrowing is overlooked. Impact assessment, identification of borrowing sources and revenue stimulus should be planned by the government with the help of cooperatives to address this.

As advised by the World Bank, Nepal, as well as other South Asian nations, should implement "expansionary fiscal policies combined with monetary stimulus to keep credit flowing in their economies." To ensure that the economy suffers minimal losses, Nepal cannot afford to rely on a sclerotic system to navigate forthcoming challenges in the coming months.

Pakistan:

After several tumultuous years, the fiscal development in Pakistan was expecting to witness a slight uptake by an estimated 2.6 per cent (WESP, 2020) in the fiscal year 2020. However, this calculation did not account for the global economic crunch that has occurred in the wake of COVID-19 outbreak which is expected to cause 10 per cent loss, estimated at PKR 1.1 Trillion, of total GDP during the first quarter of FY 2020. An analysis by Pakistan Institute of Development Economics (PIDE) on disruptions on trade has been estimated to drop by 20 per cent; the economy can face a loss of up to 4.64 per cent in GDP. The decline in export is forecasted to be as high as 20 per cent, order cancellations from major export partners Germany, UK, and The Netherlands has hampered Pakistan to meet the export target of $24 billion and for March-June period, exports may go down by another 50 per cent. Amidst of these unpredicted crisis, contrary to the gigantic stimulus relief funds announced by the developed countries, the Government of Pakistan has announced a stimulus relief fund of 8 billion US dollar to support the most vulnerable citizens.

As the economic meltdown continues to accelerate around the world, Prime Minister Imran Khan urged the United Nations Secretary General for launching a Global Initiative of Debt Relief to overcome the disastrous impact of COVID-19 in developing countries. He proposed to offer a fiscal space through restructuring and financial relief through enhanced debt relief to the countries grappling with the unprecedented economic crisis. Prime Minister Imran Khan convened a group of Heads of International Organizations, Heads of State/Government from the Paris Club Highly Indebted Poor Countries (HIPC), and others concerned to join him in this endeavor. Consequently, the Finance Minister of G-20 countries announced a major debt relief for 76 developing nations that included Pakistan by sanctioning a one-year debt relief.

Sri Lanka:

With the emergence and continuation of the COVID 19 pandemic globally, the evolving economic scenario for Sri Lanka could unfold to be even worse than the most difficult time during the 30-year civil conflict. Sri Lanka’s growth in 2020 will be less than the historically low rate recorded in 2019. The IMF WEO 2020 projects -0.5% growth in 2020 (down from 2.3% in 2019). Moreover, a V-shaped recovery in Sri Lanka in 2021 seems doubtful given many domestic and international risks and uncertainties. The most encouraging signs of the spread of the virus is that it is primarily limited to clearly identified clusters rather than experiencing community spread. The government took steps to support the Sri Lankan economy in the aftermath of the COVID-19 pandemic. These include: various fiscal and monetary stimulus measures, banning inessential imports, seeking financial assistance from important donors, assistance for selected sectors and establishing a new special deposit bank account for foreign exchange remittances. These are important building blocks in the formulation of a strategic approach to the COVID-19 crisis.

All countries would need to adjust to a more regional and local approach in a post-COVID-19 world. In this changed world, each country would need to develop its own social contract and formulate its development strategy autonomously. In doing so, the highest priority must be attached to making pragmatic policy choices based on a rational assessment of costs and benefits.

A mix of macroeconomic, structural, pro-poor and climate-friendly economic policies is required to build a post-COVID-19 Sri Lankan economy.